

VISIT...

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- Trading with the lead axes: MSCO, GSCO, MLCO, SBSH

● Main Points:

- Now that you've learned 4 ways to "spot the ax" on Level 2, let's look at how to make money daytrading by following the biggest and most powerful axes.
- Trading with the major market makers is a relatively safe way to daytrade, once you know what to look for and how to follow the signals.
- At a minimum, you do not want to be on the wrong side of a trade when up against any of these four mm's when they are selling (or buying) in size, and refresh their bid/ask.
- At best, you can be in front of their order flow and profit from a large order they are currently working.
- When they flip from the bid to the ask you should prepare to exit your trade if you're long.

As the old traders' saying goes, "Some days you're the dog and other days you're the hydrant". Let's try to be on the best side of that by learning how to trade with the right buying and selling pressure generated by the lead mm axes.

Examples:

Play #1: Follow the Lone Wolf

Let us say that you are watching this level 2 SBUX screen. Of the 4 major market makers we'll be shadowing, which one appears here on the inside bid or ask?

Ok answer is: GSCO, bid size 10 at 27 5/8. On the time and sales you see a lot of selling going on, and GSCO is buying.

How can you trade with this? First of all, consider all danger signals: eg there's a pretty high number of sellers on instinct (INCA size 44), it could be a number of players in that pool of 44, we need to watch the tape to see if the 44 shrinks to less than 10 quickly (bullish), or stays strong. Remember a mm like MLCO or SBSH or whoever could be routing a big sell order thru INCA. The tape tells us what we need to know, for now there is a larger ratio of sell orders to buy orders on the tape, and no big blocks (12

SBUX		Best Market		P	T	OK	
SBUX + 27 5/8 b 27 5/8 a 27 11/16 10 x 44 2.13M 15:38							
MMID	Bid	B...	MMID	Ask	A...		
GSCO	27 5/8	10	INCA	27 11/16	44	27 5/8	600
FBCO	27 5/8	10	ISLD	27 11/16	17	27 5/8	600
BRUT	27 5/8	6	NITE	27 11/16	1	27 11/16	500
STRK	27 5/8	5	DBKS	27 3/4	10	27 11/16	1,500
NITE	27 9/16	1	SELZ	27 3/4	1	27 5/8	100
SHWD	27 9/16	1	DEAN	27 3/4	1	27 5/8	800
FLTT	27 9/16	1	SHWD	27 3/4	1	27 5/8	100
MADF	27 9/16	1	MONT	27 3/4	1	27 5/8	200
INCA	27 1/2	10	SBSH	27 13/16	10	27 5/8	200
SBSH	27 1/2	5	MLCO	27 13/16	10	27 5/8	300
MONT	27 1/2	1	LEHM	27 13/16	1	27 11/16	500
JPMS	27 1/2	1	JPMS	27 13/16	1	27 11/16	100
CANT	27 7/16	1	MWSE	27 7/8	14	27 5/8	300
WBLR	27 7/16	1	OLDE	27 7/8	10	27 5/8	300
DBKS	27 3/8	10	MSCO	27 7/8	10	27 11/16	1,000

Daytraders' Play: Let's assume you've been watching for awhile and you see GSCO has been at the inside bid (yellow) and is "holding up" the stock price at 27 1/2 to 27 5/8, giving it support.

Even when a wave of sellers comes in (that you can see on T&S), the price momentum doesn't weaken, and the stock is recovering (you see from Level 2 that the buyers aren't backing away, the color bands aren't getting thinner etc.). GSCO stays a buyer more than 70% of the time. He's not flipping over to the ask much at all, and seems to be holding the stock up. You also see here that GSCO's "trade box" is bullish, he isn't even posting an ask 3-4 spreads up (unless he's faking via an ecn). Also, you don't see any of the other 3 heavyweights selling openly at the ask: no MLCO SBSH MSCO.

selling at the bid, 5 paying the ask). Still, so what.

GSCO will not make his intentions overly obvious, but your "feel" of the situation is that he is a buyer of the stock today and is stronger than the sellers at this particular point in time. So, you would buy stock where GSCO is, say enter a limit buy 1100 shares at 27 5/8, or, if the sellers at 27 11/16 start to quickly disappear you enter a limit buy at the retail ask price of 27 11/16 to get some.

When the stock price rolls up a spread to read 27 11/16 x 27 3/4, watch GSCO. If he stays at 27 5/8 or better after the price goes up a spread, you're in a winning trade. Trail stops 1/4 point down to lock in profit, and sell when you see GSCO drop his bid by more than a spread, or when he flips over to the sell side.

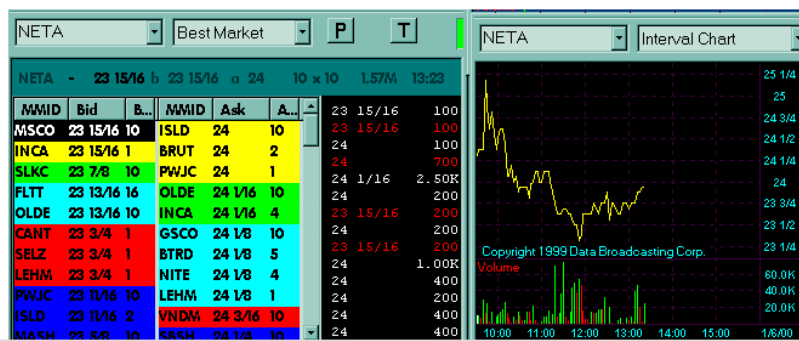
Play #2: Samson and Goliath: MM ax vs. weak hands

Here's our NETA example with MSCO.

Now, let's just consider the 4 major mm's MSCO MLCO SBSH GSCO. Who is MSCO trading against? Nobody, unless someone's selling a bunch through ISLD (unlikely). BRUT and PWJC are small potatoes relative to MSCO.

The next "strong player" is GSCO at 24 1/8. So, your trade is relatively safe here, especially with volume reversal breakout confirmation on your 1-minute chart at right, and many trades going off at 24, the ask, in T&S.

What do you do to buy ahead of MSCO without paying up the spread? You can either enter a larger order than the best bid, eg bid 1100 23 15/16, or split the spread and bid 23 31/32 (though if you're only trading 500 shares that's just \$15, probably not worth haggling over).



Daytraders' Play: Anytime you see a battle between one of the "big 4": MSCO MLCO SBSH GSCO against an ECN order or chippies, you should probably start by assuming one of the big 4 will win, at least for a couple spreads' worth of price movement. Watch the T&S to confirm buying/selling direction, and be ready to exit if the mm flips over from bid to ask or vice versa. MLCO seems to flip the most, in the stocks I play. SBSH and GSCO seem to be the most consistent of the 4, they don't seem to flip around as often.

Make sure to define your entry and exit strategy before trading as always, eg for a "I'm going to follow MSCO trade at 23 15/16 buy the bounce play" you might say to yourself "I'll have to be careful as it gets over 24, the high of the day is 25ish so I'll plan on scalping it and selling when T&S starts to reverse, I'm expecting to exit somewhere around 24 1/2."

So, you buy 1100 shares at 23 15/16, immediately offer it out at 24 1/8 to frontrun GSCO if you're scalping, or, sit on it and sell as your T&S shows other sellers coming in strong. Again, based on what MSCO is doing; if he is holding it up and raises his bid as the price moves up I'd be less inclined to sell. If he immediately flips over to the ask, or if T&S shows lots of people hitting the current bid, then you should exit the trade as well. Easy, right?

Play #3: Dueling Daytraders :o

Some stocks are heavily traded by daytraders, who have a stronger impact on the price momentum of the stock. Many internet stocks like DCLK and AMZN fall into this category, so you need to know how to play these as well.

Daytraders frequently route through ECNs like ISLD/INCA/ATTN/ARCA etc and so you see a ton of trades going on here. **You do not try to follow the ax in stocks that have most of their orders going through on ECNs**, nor through stocks that have very thin bid/ask levels (eg frequently only have 1-2 market participants at each level). Why not? Well, it's a pointless strategy to follow one of the big 4 if 80% of the trading is being routed through ECNs, right? In the example to the right, let's see, you've got MLCO offering 3 spreads up, MASH (an "almost-big" mm), with a 2 size two spreads down, nothing in other words you can follow in the area of a mm ax to trade with. It's an ECN play.

So, you need to follow trade using the crowd direction in these stocks even more so. Typically, these stocks sell off faster than others do, so are good "bottom bounce" play candidates or short candidates. They sell off faster because you have more panicked daytraders playing them, and we exit at the first hint of price weakness in our stocks.

AMZN	Best Market	P	T	OK					
AMZN - 91 7/8 b 91 7/8 a 92 10 x 27 10.5M 14:50									
M...	Bid	B...	M...	Ask	A...		91 7/8	200	
INCA	91 7/8	10	ISLD	92	22		92	100	
MWSE	91 7/8	1	ARCA	92	12		92	100	
ISLD	91 13/16	6	MASH	92	10		92	100	
MASH	91 3/4	2	BRUT	92	6		92	400	
NFSC	91 3/4	1	INCA	92 1/16	10		92	900	
MADF	91 3/4	1	DKNY	92 1/16	1		92	100	
REDI	91 9/16	5	REDI	92 1/8	2		92	100	
SELZ	91 9/16	1	MLCO	92 1/4	9		91 15/16	600	
JPMS	91 1/2	1	MWSE	92 1/4	5		91 15/16	100	
COWN	91 1/2	1	SLKC	92 1/4	1		92	100	
SLKC	91 7/16	1	MONT	92 1/4	1		91 15/16	100	
MSCO	91 1/8	10	NITE	92 1/2	20		92	100	
STBK	91 1/8	5	MADF	92 1/2	11		91 63/64	200	

Daytraders' Play: T&S looks bullish, L2 looks bearish (why, traders?). Indeterminate; I wouldn't know whether to buy or sell until I saw the tape in action and could see the day's chart and other market indicators (like the \$GIN first, then the naz \$COMPQ chart, then \$TRINQ/\$TICK etc).

For now, it a "sit on the sidelines and watch" stock, based on what I see here. That's ok, I spend most of the time watching, waiting for an opportune moment, then bang I fire off the order, watch it go in my favor a spread or 2 or 5, then sell. Or, if it weakens then I'm outta there fast, and get ready to "try again",

NOTES on Following the big 4: MLCO SBSH MSCO GSCO

1. You are always looking for "lopsided" high-percentage situations to trade in. Many new traders overtrade, making for rich brokers and broke traders. Use a sensitive, practiced eye to see what the behavior of a major market maker is in the stock you are following.
2. All the same daytrading guidelines apply, eg dont go long during lunch, use small stops, try to stay ahead of the crowd by using your charts and T&S patterns to verify entry and exit points.
3. I have found it extremely helpful to identify the major market makers in my particular stock, using the www.nasdaqtrader.com link (see front page www.trainingaloha.com link for "Identify the naz ax").
4. Once I have narrowed it down to whichever one is playing my stock the most that day, I will look for high-opportunity profitable times to play the stock, such as the 10:30 naz bounce on a down day.
5. Recognizing net buying vs. selling is a fairly difficult skill to master, at least as hard as learning how to play Monopoly. So spend at least as much time, 3-4 concentrated hours on a single stock, to try and identify net buying and selling using your level 2 screen and t&s for the market maker you believe is the ax. It may take a few times to correctly identify who's moving the stock. In fact, it will probably take you a number of weeks to begin to get good at it. That's ok, it's not an easy skill to master. But master it you must if you are to do this for a living.

Notes On Daytrading:

I don't sugarcoat daytrading or spout vague warnings about risk management. I'm preparing you to succeed at this, by telling you the things other people do not. It is a job, and it takes work. The good thing about This particular job is that you can make a lot of wealth by doing it correctly.

But, it takes more work than most are willing to put in, so they "dabble", get lucky now and then, and end up leaving the casino broke. To succeed at daytrading, you must be willing to work exceptionally hard, and master many new skills. Look at it like a degree program, and prepare yourself as professionals do. Read the market maker info on the Workstation 2 page links (the pdf files).

Realize what you're into here. You set your own odds in this casino, and every one of the skills you master at DTU should help you become more effective at learning how to daytrade for a living. I am giving you more advanced information than any other daytrading seminar/book other resource provides (that I'm aware of), because it is what is needed to honestly, realistically succeed at this.

My role here is to be a coach and an armorer, giving you the defensive and offensive trading weapons, skills and signals you need to stay ahead in this game. It does take hard work, but at least you can really be free of a day job, live anywhere you want, and have what you want if you succeed at this.